REPORT

# For vacant office buildings, research labs may offer a new lease on life during COVID

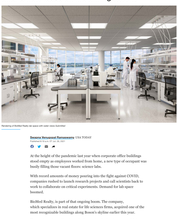


Photo by Eli Burke Photo for Jacobs Art Lofts in Kansas City, Mo. | Photo: Eli Burke Photo for Jacobs Art Lofts

Dennis Nemeroff Dennis Nemeroff
June 7, 2021 10:00 ET

Brelland Realty has acquired the former headquarters of Jim Pattison Ford Dealership in Kansas City, Mo., and plans to convert the 1-story building into office space for lease. The building is about 40,000 square feet. | Photo: Brelland Realty

## From blocks to lab coats

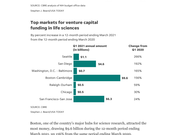
Brelland Realty is one of several developers betting that a glut of partly vacant office buildings can be converted into labs.

"It's the one industry where the work from home philosophy doesn't apply," said Jim Brelland, president of Brelland Realty, which has the largest commercial real estate office portfolio. That's because workers don't "conduct experiments remotely."

An influxo of venture capital investment supercharged by the COVID pandemic, increased National Institutes of Health funding, as well as greater demand for research space generated by corporations into the life sciences field, have all accelerated demand for lab space.

### National Institutes of Health annual funding for life sciences

Funding by fiscal year, in billions of dollars.




SOURCE: CMR analysis of NIH budget affiliated data.
Graphics | Barron's/Dr. Tyson

### Top markets for venture capital funding in life sciences

By percent increase in a 12-month period ending March 2021 From the 12-month period ending March 2020

| | $1 billion+ annual investment (in billions) | Change from 4Q 2020 |
|---|---|---|
| Toronto | $1.1 | 206% |
| San Diego | 16.6 | 192% |
| Washington, D.C.–Baltimore | 10.7 | 165% |
| Boston-Cambridge | 19.6 | 153% |
| Raleigh-Durham | 2.5 | 53% |
| Chicago | 3.6 | 35% |
| San Francisco-San Jose | 26.5 | 24% |

SOURCE: CBRE
Graphics | Barron's/Dr. Tyson

Boston, one of the country's major hubs for science research, attracted the most money, drawing $26.6 billion during the six-month period ending March 2021, up 153% from the same period ending March 2020.

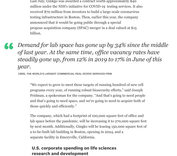


Photo by Eli Burke Photo for Jacobs Art Lofts in Kansas City, Mo. | Photo: Eli Burke Photo for Jacobs Art Lofts

Gridiga Biosciences, a biotechnology company headquartered in Boston, is benefiting from the increased demand for scientific research.

The company has been involved in COVID-19 response efforts, including immunology testing, epidemiological tracking, vaccine development and therapeutics discovery. Founded in 2018 by five MIT scientists, Gridiga grew from 200 employees in January prior to just this year.

## Money for COVID research pours in

Last July, Gridiga was awarded a contract worth approximately $20 million under the NIH's initiative for COVID-19 testing services. It also received $10 million from investors to build a large-scale coronavirus testing infrastructure in Boston. There, earlier this year, the company announced that it would be going public through a special purpose acquisition company (SPAC) merger in a deal valued at $1 billion.

> *Demand for lab space has gone up by 34% since the middle of last year. At the same time, office vacancy rates have steadily gone up, from 12% in 2019 to 17% in June of this year.*
>
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"We expect to grow to meet three targets of running hundreds of new cell programs every year, of running robust biosecurity efforts," said Joseph Feldman, a spokesman for the company. "And that's going to need people and that's going to need spaces, and we're going to need to acquire both of those quickly and efficiently."

The company, which had a footprint of one-eighth of an acre in Boston's Seaport District, is looking for more space, according to a recent open bid for real estate. Additionally, Gridiga will be leasing a total of eight acres of a to-be-built lab building in Boston, opening in 2024, and a separate facility in Emeryville, California.

### U.S. corporate spending on life sciences research and development

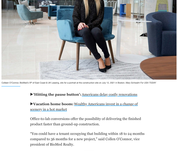
Funding by fiscal year, in billions of dollars.*

*Excludes R&D funded via publicly traded pharmaceutical, biotechnology and medical technology companies, which totaled $100 billion in 2020.

SOURCE: CBRE analysis of S&P Capital IQ data and company reports for Q1 2021.
Graphics | Barron's/Dr. Tyson

Across all markets, the demand for lab space has gone up by 34% since the middle of last year, according to CBRE. At the same time, office vacancy rates have steadily gone up, from 12% in 2019 to 17% in June of this year.

That makes office-to-lab conversions an attractive option for developers looking to cash in on the unprecedented demand. While other kinds of conversions, of residential buildings, for example, are also being pursued in some markets, the office-to-lab conversion has generated interest in huge chunks too, said Jonathan Miller, a state-certified real estate appraiser in New York and Connecticut.

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## Converting space is faster than building

"Tech conversions will be extremely expensive and will take years to convert," said Miller. "The politics of rezoning and the financial costs of bringing residential building codes into existing commercial buildings, I think is problematic."

He believes the vacancies present an opportunity for new businesses, who have previously priced out, to come into urban markets such as New York City.

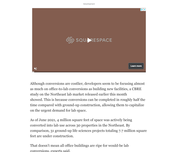

Photo: Eli Burke Photo for Jacobs Art Lofts

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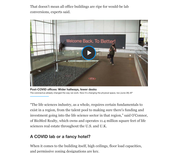
Office-to-lab conversions offer the possibility of delivering the finished product faster than ground-up construction.

"You could have a tenant occupying that building within 18 to six months versus the typical three to four years," said Gilles O'Connor, vice president of Brelland Realty.

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Although conversions are confident, developers seem to be focusing almost exclusively on life sciences research. Nationwide, there's a recent CBRE study on the Northeast lab market released earlier this month, showed. This is because conversions can be completed in roughly half the time compared with ground-up construction, allowing them to capitalize on the urgent demand for lab space.

As of June 2021, a million square feet of space was actively being converted into lab use across 30 properties in the Northeast. By comparison, in ground-up life sciences projects totaling 1 million square feet are under construction.

That doesn't mean all office buildings are ripe for the lab conversion, experts said.

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"The life sciences industry, as a whole, requires certain fundamentals to survive in a region, from the talent pool to making sure there's funding and investment going into the life science sector in that region," said O'Connor, of Brelland Realty, which owns and operates a 1.4 million square feet of life sciences real estate throughout the U.S. and U.K.

## A COVID lab or a fancy hotel?

When it comes to the building itself, high ceilings, floor load capacities, and permanent zoning designations are key.

The buildings could also require freight elevators to ensure there's no crossover between shipping and receiving of hazardous materials and the general public.

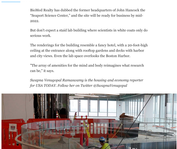


Photo: Eli Burke Photo for Jacobs Art Lofts

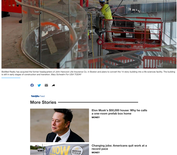
Brelland Realty has dubbed the former headquarters of John Hancock the "Seaport Science Center," and the site will be ready for business by mid-2022.

But that's expect a small lab building where scientists in white coats only do serious work.

The renderings for the building resemble a fancy hotel, with a six-foot-high ceiling at the entrance along with rooftop gardens and decks with bocher and city views. Even the lab space overlooks the Boston Harbor.

"The array of amenities for the mind and body reimagine what research can be," it says.

*Dennis Nemeroff Nemeroff is a reporter for The Wall Street Journal. Follow him on Twitter @dennisnemeroff*



Brelland Realty has acquired the former headquarters of John Hancock (JH Kansas City). It is Brelland and Jacobs's current flex-to-lab building, which is about 40,000 square feet. The building is about 1 million square feet. | Photo: Brelland Realty

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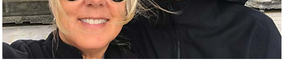

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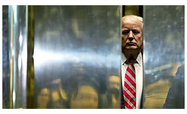

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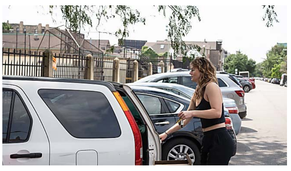

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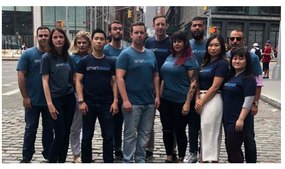

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